No. 86-1735

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

against

EL GRECO LEATHER PRODUCTS COMPANY, INC. d/b/a CANDIE'S INTERNATIONAL,

Respondent.

PETITIONER'S REPLY BRIEF TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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TABLE OF CONTENTS

	Page
The Contract Here Contains No Definition of "Genuineness", Thus Requiring An Analysis of the Totality of Circumstances	3
Parties Should Not Be Free to Redefine Trademark Infringement By Determining For Themselves What Is Or Is Not Genuine	10
Conclusion	15

TABLE OF AUTHORITIES

Page

Adolph Coors Co. v. A. Genderson & Sons, Inc., 486 F. Supp. 131 (D. Colo. 1980) 9

California Fruit Growers Exchange v. Sunkist Baking, 166 F.2d 971 (7th Cir. 1947) 12

Campbell Soup Co. v. Armour & Co., 81 F. Supp 114, *aff'd.*, 175 F.2d 795 (3d Cir.), *cert. denied*, 338 U.S. 847 (1949) 14

DEP Corp. v. Interstate Cigar Co., 622 F.2d 621 (2d Cir. 1980) 9

Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) 8

Monte Carlo Shirt, Inc. v. Daewoo Int'l (America) Corp., 707 F.2d 1054 (9th Cir. 1983) 8

Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972) 14

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Respondent argues, for the first time, that the issue of genuineness of branded goods is properly decided as a matter of "fundamental black letter" contract law. Respondent's Brief p. 7. It contends that courts should not examine, as the district

court did below, the totality of circumstances in determining whether or not goods manufactured pursuant to authorization of the trademark owner are genuine. Instead, courts should refer simply to the four corners of a document pursuant to which the manufacturer of the goods at issue was to be paid -- in the present case, the Letter of Credit.[1] According to Respondent's theory, a party to such a document can redefine trademark infringement, without regard to the consuming public, by determining for itself,

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[1] Respondent states that the Court of Appeals majority "relied on simple but well rooted principles of contract law", Respondent's Brief p. 20, thus misapprehending the opinion of the Court, which did not in the least rely on contract law. The Court of Appeals majority clearly reversed the trial court based on the mistaken notion that the trademark owner's effort to control quality was denied because a so-called "Certificate of Inspection" was never issued. The Court thus ignored specific, undisturbed findings of fact that quality control was not denied. See infra pp. 4-5.

what is or is not genuine. Even assuming that the Letter of Credit contained such a definition (and it clearly does not), Respondent's argument must fail.

The Contract Here Contains No Definition of "Genuineness", Thus Requiring An Analysis of the Totality of Circumstances

The contract in question, a Letter of Credit, is devoid of any definition of genuineness and does not even remotely address the issue. Nowhere in the document is there a statement of what will or will not constitute genuine goods. That document simply provides that certain conditions must be met before the manufacturer can draw upon the Letter of Credit. Among these conditions is issuance of an "Inspection Certificate". This Certificate is merely a written confirmation of the fact of inspection; it could just

have easily been called a "Confirmation Certificate".

Clearly, non-issuance of such a Certificate with respect to the two lots at issue cannot, *ipso facto*, establish that the goods were not inspected for quality prior to completion. Nevertheless, Respondent argues that absence of the Certificate means, as a matter of law, that there had been a denial of the right to control quality. The appellate court agreed (A 14-15), notwithstanding undisturbed factual findings by the trial court that the goods (i) were routinely inspected[2] (A 84-86, 116, 119); (ii) were completed and labelled with Respondent's permission prior to cancellation of the

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[2] Along with routine inspection it was "normal procedure" for Respondent's agent to inform a factory in writing why goods were not accepted. No documentation for the goods at issue here which would indicate quality defects was offered in evidence. (A 87).

order (A 88, 116, 119); (iii) were of a quality consistent with earlier certified shipments (A 80, 86-88, 116); and (iv) were found to have been rejected for *late delivery* and *not* poor quality.[3] (A 86-87, 95-96, 124).

In truth, Respondent seeks merely to interfere with the distribution of lawfully manufactured goods. It elects to forgo an alleged contract right against the manufacturer of the goods[4] (whereby

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[3] The district court found incredible Respondent's claim that it had cancelled the two lots for quality reasons. In fact, Respondent caused certain merchandise to be manufactured in Brazil, merchandise that was *only* marketable in the United States and, on the basis of an alleged late delivery, cancelled the order (A 86-87). The reason that Respondent even argued poor quality was that it recognized without a finding of nongenuineness, the goods could not infringe.

[4] The district court noted:

> [I]t is likely that plaintiff itself could prevent any future unauthorized disposition of its trademarked goods

(footnote continued)

Respondent could limit distribution) and instead seeks to enforce this alleged right against Petitioner in the guise of a trademark infringement action.

Respondent argues that the goods were not lawfully manufactured based on a provision in the Letter of Credit that a Certificate of Inspection must issue before the manufacturer could draw on the Letter. Unfortunately for Respondent, the Certificate of Inspection is entirely unrelated to the lawfulness of the making of the goods. For one, the Certificate was to issue only after manufacture was complete. Indeed, the uncontested

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by exercising sufficient control over its foreign manufacturers when it cancels marked goods. Furthermore, as plaintiff alleges that the Brazilian manufacturers improperly disposed of the shoes in issue, it is quite possible that plaintiff has an adequate legal remedy against these manufacturers for any contract damage it may prove.

(A 159).

findings of the trial court are that the goods were "authorized", "planned and sponsored" by Respondent. (A 93, 124).

Respondent's contention that as a matter of law the Letter of Credit is dispositive on the issue of genuineness is patently absurd since the Letter is silent on that point. What Respondent is really saying is that because it did not issue a Certificate of Inspection, then, as a matter of law, it must not have controlled quality. As noted, this simply ignores the unrefuted findings of the trial court.

The Court of Appeals for the Second Circuit also failed to appreciate the distinction between the act of quality control and a ministerial verification of that act, namely, issuance of the Certificate of Inspection. In doing so, the Court below permits Respondent to redefine trademark infringement and the

Trademark Act's underlying rationale, i.e., protection of consumers from falsely marked goods or goods of inferior quality.

Moreover, even if we assume that a signed Certificate was required for the merchandise to acquire the trademark holder's final approval, this is not necessary to a finding of genuineness. As stated by Judge Altimari below in his dissent:

> As long as the goods are manufactured under the direction of the trademark owner, bear the trademark registered and issued by the trademark owner, and are not of an inferior quality, the products are considered genuine. It is not necessary to a finding of genuineness that the goods be distributed with the trademark holder's express authorization. *See Olympus Corp. v. United States, 792 F.2d 315, 321 (2d Cir. 1986)* (goods manufactured and marked abroad by parent of trademark holder and imported without permission adjudged genuine since they did not bear "counterfeit or spurious trademarks"); *Monte Carlo, 707 F.2d 1054* (goods manufactured according to trademark owners' specifications and bearing its label but distributed to

> discount retailers without permission of trademark owner deemed "genuine"); *DEP Corp. v. Interstate Cigar Co.*, *622 F.2d 621, 621 & 622 n.1 (2d Cir. 1980)* (goods considered genuine as there was "no difference between the product sold by [trademark owner] and that sold by [alleged infringer]," although source of goods not trademark owner but "European middlemen"); *cf. Adolph Coors Co. v. A. Genderson & Sons, Inc.*, *486 F. Supp. 131 (D.Colo. 1980)* (unauthorized sale of beer manufactured and trademarked by trademark owner constituted an infringement since sold in a damaged and inferior condition).

(A 28-29).

Respondent's claim that it should succeed because a provision in the Letter of Credit is dispositive, as a matter of law, on the issue of "genuineness" not only completely ignores the explicit language of that contract, but also effectively rewrites its terms.

Parties Should Not Be Free to Redefine Trademark Infringement By Determining For Themselves What Is Or Is Not Genuine

Even if the Letter of Credit did contain a definition of "genuineness" that was consistent with Respondent's position herein, a party cannot, by insertion of self-serving contract language, redefine substantive trademark law and determine for its own purposes what type of activity will or will not constitute trademark infringement.

For example, let us assume that Respondent placed in its Letter of Credit language stating:

> With respect to any lot for which a Certificate of Inspection is not obtained, such lot shall be deemed to be nongenuine goods under United States trademark laws.

It is Respondent's position that this language would, as a matter of black letter law, determine the issue even

against innocent third parties not privy to the contract, notwithstanding the fact that the goods had come into existence at Respondent's request and in compliance with quality controls imposed by Respondent! With the stroke of a pen, Respondent argues, it should be able, in essence, to bypass the general body of trademark jurisprudence and to disregard the basic rationale for protection of trademarks, namely, the protection of consumers from falsely marked goods or goods of inferior quality. That is impermissible.

By way of illustration, one may refer to the so-called "field of use" agreements entered into by "friendly" competitors. These agreements generally involve the use of identical or very similar marks on related goods. For business reasons, competitors will agree to divide the field,

notwithstanding the fact that public confusion may result. Such agreements have been the target of judicial criticism.

For example, in *California Fruit Growers Exchange v. Sunkist Baking, 166 F.2d 971 (7th Cir. 1947)*, the Court of Appeals for the Seventh Circuit reviewed a decision enjoining the use of "Sunkist" on bread. Plaintiffs in that case were California Fruit Growers Exchange ("Exchange"), which used "Sunkist" on fresh fruits and soft drinks, and California Packing Corporation ("Packing"), which used "Sun-Kist" for canned and dried fruits and vegetables, milk and butter. Plaintiffs' concurrent use of the mark on these similar goods was the subject of an agreement whereby Exchange and Packing each granted the other the right to employ the mark on their respective goods.

These plaintiffs obtained an injunction against defendant's use of "Sunkist" on bread on the basis that defendant's use would be likely to cause public confusion. The Court of Appeals, noting that the product lines of the two plaintiffs were more similar to each other than they were to the defendant's goods, reversed the lower court's injunction, ordered a dismissal of the Complaint and made the following, stinging observation:

> We are supposed to believe that when a customer bought fruits or vegetables under the name "Sunkist", he was not confused as to whether the fruit came from the California Fruit Growers Exchange or the vegetables from the California Packing Corporation; but if he bought a loaf of bread under the name "Sunkist", he was likely to think that he bought it from one or the other of the plaintiffs because they sold fruits and vegetables, but never bread. With the plaintiffs practicing such hocus-pocus with the trade-name "Sunkist", we shall ask to be excused when we are admonished by these dividers of confusion

> by contract to hear their vice president and advertising manager shout confusion on behalf of the purchasing public.

See also Campbell Soup Co. v. Armour & Co., 81 F. Supp 114, 120, aff'd., 175 F.2d 795 (3d Cir.), cert. denied, 338 U.S. 847 (1949).[5]

While it is clear that the Letter of Credit contains no definition of genuineness, it is just as clear that even if it did contain such language, that would not, under law, permit a redefining of what conduct will or will not result in a finding of trademark infringement. Of necessity, such a finding must be based upon an application of relevant statutes and case precedent.

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[5] See also those cases, which, by way of further analogy, instruct that parties cannot, under the guise of a trademark license contract, avoid compliance with the antitrust laws. *Siegel v. Chicken Delight, Inc., 448 F.2d 43, (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972).*

Conclusion

Respondent seeks to enforce against Petitioner in the guise of a trademark infringement suit a contract right it allegedly has against its foreign manufacturer. Its purported basis is that the issue of genuineness of branded goods is properly decided as a matter of contract law, and that because an Inspection Certificate (required for the manufacturer to draw on the Letter of Credit) was not issued, the goods were not genuine.

There is no provision in the Letter of Credit defining whether goods distributed without an Inspection Certificate are or are not genuine. Indeed, the letter is devoid of any definition of genuineness. While no one debates that a Certificate of Inspection never issued, it is clear that quality control was not denied and

inspection took place prior to rejection of the shipment.

Where, as here, the goods came into being with permission, the mark was affixed with authority prior to cancellation, the goods were of a quality consistent with earlier certified shipments and where Respondent itself tried to sell to Petitioner the very same style of goods that Petitioner purchased from the manufacturer[6], it is respectfully submitted that the goods are genuine and their sale does not and cannot constitute trademark infringement.

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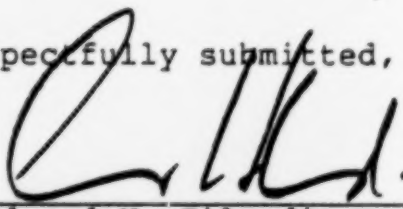
[6] The trial judge found that the claim of nongenuineness lacked credibility for the additional reason that on the same day that Respondent's president complained on the phone to Petitioner's president about this matter, Respondent's salesman was offering the *very same* shoe style to Petitioner's as close-out merchandise with the full knowledge of Respondent's president. (A 91-92).

As a result of the majority opinion below, Respondent has been permitted to redefine trademark infringement and the basic rationale for protection of trademarks, i.e., protection of consumers from falsely marked or inferior quality goods. It is self evident that this is unfair and improper. Accordingly, the Court of Appeals decision should be reversed.

Respectfully submitted,

By 

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